Development of Accounting Regulations and Practices in Kuwait

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Development of accounting regulation in Kuwait: An analytical review

Abstract

Purpose:

This study explores the development of accounting regulations and practices in the State of Kuwait with an emphasis on exposing key influences. Further, the study aims to provide an institutional insight into Kuwait's current accounting practices and its potential for advancement. A number of key institutional issues regarding the development of accounting are addressed including economic and political influences, the legal system classification, and cultural settings. In addition, issues affecting decision to adopt International Financial Reporting Standards (IAS/IFRS) and the role of the accounting profession in Kuwait are investigated.

Design/Methodology/Approach:

We adopt an institutional approach in order to facilitate an understanding of the role institutional factors have played on accounting practices in Kuwait. Our aim is to understand current practice and to attempt to influence future practice by making policy recommendations and further research suggestions.

Findings:

It is clear that economic, political, and legal factors are directly linked to specific features of the accounting system in Kuwait; specifically, the Kuwaiti parliament is a key player in the formation of all economic and political policies issued regarding business practices in general, and accounting ones in particular. In addition, the accounting profession could have a key role to play in shaping systems going forward. However, the professions need to assert themselves and make sure that their voices are not lost in a sea of competing concerns regarding regulatory reform.

Research Limitations/Implications:

This study should be of interest to academicians, practitioners and regulators of other countries, especially developing countries, who seek to develop their accounting disclosures and practices.

Originality/Value:

This analytical review brings together a diverse body of knowledge and attempts to understand the accounting environment in Kuwait as a coherent hole. Such a holistic approach should facilitate a clear understanding of current practices and serve to guide future accounting regulatory reform.

Keywords: Accounting practices; accounting regulation; corporate governance; capital market; emerging economies; IAS/IFRS; Kuwait.

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1. Introduction

Roberts et al. (2005) argue that no two countries have identical accounting systems as the extant literature has highlighted the crucial role played by the external environment on a country's accounting system (Cooke and Wallace, 1990; Dunne et al., 2008). For instance, Mueller (1967) suggests that the stage of economic development, type of economy, growth pattern of the economy and culture can affect a country's accounting practices. Doupnik and Salter (1995) argue that the stage of development affects the type of business transactions conducted in a country and the type of economy determines which transactions are more prevalent. Several international accounting studies have examined the factors that can affect the development of an accounting system (for example, see Nair and Frank, 1980; Gray, 1988; Doupnik and Salter, 1995; Nobes, 1998; Gernon and Meek, 2001; Bushman and Piotroski, 2006; Mashayekhi and Mashayekh, 2008; Elsayed and Hoque, 2010; Assenso-Okofo et al., 2011; Mardini et al., 2013).

Although these studies take various forms[i] some general conclusions emerge, namely, these studies identified a number of factors that can affect a country's accounting practices, including (i) the political and economic system; (ii) the legal system; (iii) the accounting profession; (iv) the taxation system; and (v) culture. The vast majority of prior research in this field has focused on developed countries, particularly in the Western World, while other regions such as the Middle East in general, and Kuwait in particular, have been relatively overlooked. Since its establishment in the early 19th century, Kuwait did not have national accounting practices; instead accounting systems in the country were largely influenced by Western accounting practices imported by overseas enterprises commencing operations in Kuwait.

In addition, Islamic accounting practices in some countries (including Egypt, Saudi Arabia, and Pakistan) have had some impact on accounting rules in Kuwait especially within business that engaged in Shariah-compliant activities. Kuwait adopted International Accounting Standards (IAS) in 1990 which means that all public listed companies have to apply these standards when preparing their financial statements.

The current study contributes to providing a general understanding of Kuwait's political, economic, and regulatory environment, and specifically focuses on highlighting its accounting and financial reporting framework. While limited prior research (Yousif, 2007) documents the nature of the political and economic development in the nation, no research has investigated the development of the accounting system in Kuwait and the antecedents to IAS/IFRS adoption. In addition, the study fills a gap in international accounting research by exploring institutional settings and links them to the development of accounting regulations in the State of Kuwait by examining recent economic reforms in Kuwait (e.g. the development of the capital market and the initiation of a privatization program) and explores how such developments have influenced accounting practices in Kuwait. The study also investigates the adoption of IAS/IFRS in Kuwait and emphasizes the role of the accounting profession in negotiating change. Furthermore, the study contributes to the international accounting research literature by utilizing institutional theory to examine factors affecting development of accounting regulations in general, and decision to adopt IAS/IFRS in particular. Finally, this study feeds into the recent literature by investigating influences on the international harmonization of accounting regulations (Chua and Taylor, 2008). The analysis in this study indicates that development of accounting regulations in Kuwait, which ultimately resulted in the adoption of IAS/IFRS, was caused by coercive pressures from both western forces and international agencies such as the World Bank (WB) and the International Monetary Fund (IMF). This study suggests that in order to ensure continued economic development, normative and mimetic pressures from investors, regulators, and professional bodies resulted in the need for continuing change to the accounting system and a move towards IFRS adoption for all entities in Kuwait.

The rest of the study is structured as follows. Section 2 provides an overview of the State of Kuwait, focusing in particular on its history and changing demographics. Followed by a discussion of development of the Kuwaiti economy in Section 3. Section 4 outlines financial reporting framework in Kuwait, with an emphasis on the role of the accounting profession. While, Section 5 summarizes the debate and offers policy implications and suggestions for further research.

2. An overview of the State of Kuwait

2.1. Kuwait history

The location of Kuwait has played a key role in the development of the country. It is considered the gateway to the Northern part of the Arabian Peninsula (Al-Yaqout, 2006). Its history dates back to the 18th century when a group of tribes came from central Arabia and settled beside the Gulf Sea after suffering drought in their native land. During that time, Kuwait was a small village and consisted of only a few thousand inhabitants. In 1756, this group elected a leader who was appointed as the first Emir of Kuwait. The Emir was from the Al-Sabah family[ii]; this royal family has continued to rule the country from the 18th century to the present day. Currently, the 14th Emir of Kuwait is Sheik Sabah Al-Ahmed Al-Sabah (Almujamed, 2011). In the late 18th century, the country became a very important center for trade in the North Arabian Peninsula and Persia as a result of the unstable political situation in Persia as well as the war between Persia and the Ottoman Empire (Al-Sabah, 1980)[iii]. This caused a number of prominent trading families to move to Kuwait. According to Al-Sabah (1980), these trading families enhanced and developed the business culture of the country.

Historically, the political system of Kuwait can trace its origins to the signing of a defense agreement with the UK in 1899 by the Emir. This agreement remained in place with Kuwait under the protection of the UK until 19th June 1961. On this day, Kuwait gained its independence (Al-Sabah, 1980). The economy and infrastructure of the country witnessed a great deal of development during the 1960s and the 1970s following independence. The country adopted a written constitution[iv] which documented both the presidential process and the parliamentary system of government. The Kuwaiti parliament plays a key role in all aspects of life within the country; it participates in all political, social and economic issues. Under the constitution of Kuwait, every individual has the right to liberty, freedom of expression and freedom of worship. Therefore, unlike other countries in the region, Kuwait is a democratic, Muslim State with a written constitution and an elected parliament. In particular, Al-Diwan Al-Amiri (2008) stated that:

> "Executive power rests with the Emir and is exercised through (the government) by the Council of Ministers (the Cabinet). This Council comprises 15 or 16 ministers. The Emir appoints the Council of Ministers on the recommendation of the Prime Minister. Legislative authority is vested in the Emir and the National Assembly (Majlis Al Umma). The Assembly is composed of 50 members who are elected for a term of 4 years. They represent a wide spectrum of political groupings: Liberals, Democrats, Independents and Islamic groups. Legislation can be initiated by a decree from the Emir, his Ministers or by the Assembly. No bill can become law in Kuwait (however) unless it is authorized by the Assembly."

Despite its many advantages, Kuwait suffered a number of financial crises during the mid-1970s and early 1980s. These financial difficulties were compounded when Iraqi troops invaded Kuwait on the 2nd August 1990 and the first Gulf war started; the US and the UK established a coalition army of troops drawn from 36 countries throughout the world in order to liberate Kuwait and liberation was achieved on 26th February 1991. However, prior to the liberation, the Iraqi troops damaged the infrastructure of the country and they also bombed and destroyed approximately 742 of the State's oil wells. As a result, Kuwait's reserves declined significantly and the economy stagnated. According to Al-Qenae (2001), it cost

Kuwait more than $5 billion to repair the property and assets that were destroyed during the invasion.

2.2. Population and Culture

Kuwait is considered a multi-cultural country hosting people from all around the world. According to the Public Authority for Civil Information (2013), the population of Kuwait was 3.96 million in 2013, of which only 1.24 million were Kuwaiti citizens while the rest were foreigners. Table 1 provides descriptive statistics about the growth of the Kuwaiti population over the past six decades. The first population estimate was carried in 1965 and reported a population of approximately half million before rising into about one million in 1975 with a growth rate of 112.9%.

Table 1 reveals a significant increase in the population arriving at over 1.5 million with a growth rate of 70.6% due to an increasing level of economic activity, before falling by 7.2% in 1995 as a result of the Iraqi invasion. In fact, non-Kuwaitis have migrated to the country primarily for employment in order to fill the vacancies as well as to work in the oil industry. The official language of Kuwait is Arabic. However, English is the second language and it is widely spoken and used in education and businesses. The official currency of Kuwait is the Kuwaiti Dinar (KD), which is made up of 1000 Fils.

INSERT TABLE 1 HERE

3. Factors affecting development of accounting practices in Kuwait

The extant literature is replete with references to the notion that accounting is a product of its environment, thus suggesting that accounting is reflective of both its time and locality (for example, see Belkaoui and Picur, 1991; Archambault and Archambault, 2003; Akhtaruddin, 2005; Zeghal and Mhedhbi, 2006; Al-Akra et al., 2009; Assenso-Okofo et al., 2011). Thus, accounting practices of a country are influenced by a variety of institutional factors including the political, economic and legal systems, cultural dimensions, the role played by the accounting profession, the status of educational systems, as well as institutional factors particular to that country. The emergence of these factors and their particular relationship with accounting is reflective of institutional processes and often situationally-variable. The rest of this section discusses key factors that influence accounting practices in the particular context of Kuwait.

3. 1 Economy

Throughout the 19th century, the Kuwaiti economy was geared towards three main activities: (i) trade; (ii) fishing; and (iii) the export of pearls (Al-Sabah, 1980). Kuwaiti merchants mainly exported commodities from Iraq to India, South East Africa and other Gulf cities because the country did not have any resources at that time; the core export commodity was dates brought from Basra city in Iraq. Further, the locals imported wood to build boats that was used for fishing, transportation and the export of pearls. All of these activities were facilitated by small capital investments and the expertise of the owner. Indeed, businesses were able to finance their funding needs without any recourse to external sources. During this era, there were no surplus funds in the country because of the self-sufficient nature of the activities that were undertaken. This explains why Kuwait had no financial institutions prior to 1941; in that year, the British Bank of the Middle East opened a branch in Kuwait after commercial quantities of oil were first discovered. The discovery of the Burgan Well in 1938 changed the financial development of the country (Al-Mutairi, 2001).

Since 1946[v], oil has become the dominant resource in the Kuwait economy. The traditional activities of the 19th century were displaced and the economic life of the country changed fundamentally; Kuwaiti citizens were employed in the oil industry and the state earned revenues from the taxes and royalties paid by the firms that extracted the oil (Al-Shamali, 1989). As a result, the government expanded and the economy of the country started to develop. In the late 1940s and 1950s, several concessions were given to foreign companies to drill for oil. For example, Al-Omar (1990) reports that, in 1958, a concession was sold to the Arabian Oil Company, a subsidiary of a Japanese trading firm, to explore for oil in the country. In 1960, the Kuwait National Petroleum Company (KNPC) was founded as a joint venture between the government and private sector[vi]; today, it is still responsible for selling Kuwaiti oil products in local and international markets. In encouraging this much-needed international inward investment Kuwait also inherited a tendency towards internationalization in terms of its accounting infrastructure, adopting the norms of the jurisdictions in which big investors were based.

The national economy continued to grow at a steady rate throughout the 1950s and 1960s. However, in the 1970s, this growth increased dramatically as a result of high oil prices. Table 2 highlights the relationship between oil prices and the economic growth of the country. The table shows that Kuwaiti Gross Domestic Product (GDP) jumped from $4.69 billion in 1972 to $28.83 billion in 1980. GDP declined during the 1980s such that, in the year of the first Gulf war, it was only $19.50 billion. However, at the end of the war, GDP rose in the first half of the 1990s before uncertainty in the region caused it to fall in 1997 and 1998. With the defeat of Saddam Hussein at the conclusion of the second Gulf war in 2003, the GDP of Kuwait has grown dramatically. In 2012, it reached a new high of $160.32 billion on the back of high oil prices (Central Bank of Kuwait, 2013); the positive association between oil prices and Kuwaiti GDP is apparent from Table 2.

INSERT TABLE 2 HERE

Table 2 also presents both the level of, and changes in: (i) oil prices; (ii) the GDP of Kuwait; and (iii) the average price index of the KSE. An analysis of this table reveals that the price of oil increased rapidly during several periods including in the early 1970s, 1982 and after 2002. For example, in the early 1970s, the price of oil rose from $2.29 to $10.73, an increase of 368.6%; over the same period, the GDP of Kuwait grew by 175.7%. On the other hand, Table 2 indicates that the GDP of Kuwait declined dramatically when oil prices decreased. Not surprisingly therefore, a significant correlation exists between changes in oil prices and variations in GDP. Al-Yaqout (2006) and Abumustafa (2007) reveal that, as the government of Kuwait's revenue grew following increases in oil prices, domestic liquidity within the country improved mainly as government spending increased and this in turn led to a higher level of trading volume in the stock market.

A country's economic policies affect its business dealings (Doupnik and Salter, 1995); they form a framework that establishes how companies relate to stakeholders (Archambault and Archambault, 2003; Assenso-Okofo et al., 2011). The theory of accounting development links accounting practices and economic environment (Belkaoui, 2002). An improved accounting system creates a favorable business climate for domestic and foreign investments. This leads to economic growth, access to long-term financing, and the development of securities markets. In turn, it is argued that market-based economies depend on a strong disclosure regime (Akhtaruddin, 2005; Al-Akra et al., 2009). With respect to Kuwait, it can be argued that Kuwait is a micro-based economy because the legislative framework, accounting standards, and the accounting profession play more important roles in the development of accounting regulations and practices than the central government. Kuwait, therefore, has an economic system that would encourage the disclosure of quality information. Indeed, the establishment of the Kuwait Stock Exchange and the launch of a privatization program played a key role in the country's accounting practices; the next two subsections expand on these two important developments.

3.2 Development of The Kuwait Stock Exchange (KSE)

Capital markets can increase investors' confidence which in turn can help attract capital for the development of a country's economy. In particular, well-developed capital markets promote decent accounting and disclosure practices (Adhikari and Tondkar, 1992). In terms of Kuwait, the KSE was not formally established until 1977, however, an informal market had been in existence since 1972 (Al-Yaqout, 2006). Almujamed (2011) indicates that share trading occurred in the early 1950s after an initial public offering (IPO) from the National Bank of Kuwait (NBK). This was the first Kuwaiti company to sell its shares to the public. It was followed by the National Cinema of Kuwait in 1954, Kuwait Airways in 1956 and Kuwait Oil Tankers in 1957 (Al-Shamali, 1989).

Salam (2002) points out that in 1970 Law No. 32 was enacted to regulate securities trading for public companies. This law was an important milestone for the development of share trading in the country; it proposed the establishment of a consultative financial committee to oversee the trading activities of investors in the country as well as the establishment of a formal stock market in Kuwait. Following this law, the Ministry of Commerce and Industry took the decision to assign the task of securities regulation to one of its divisions - the Division of Securities; this division was responsible for the supervision of trading activities and the issuance of an official daily bulletin of prices and trading activity in the market. In addition, it required stockbrokers to register with the Ministry and to report all the transactions that they executed on a daily basis. In 1976, the Ministry took the decision to replace the Securities Department with a Market Committee[vii] that would be responsible for the management, supervision, regulation and development of the market (Mahmoud, 1986). On 14th August 1983, an Emiri Decree was issued which established the KSE as an independent body run by both the Market Committee and an executive management team (KSE, 2014).

The KSE made a number of decisions to increase transparency and strengthen the rights of shareholders. For instance, it: (i) introduced trading suspensions for quoted companies when they announced price-sensitive information that affected shares; and (ii) required that any quarterly meetings of a company's board of directors must be held when the market is closed. The market committee also issued a decision that compels quoted companies to hold their Annual General Meeting (AGM) within 45 days from the date of approval of its annual reports by the KSE[viii]. It also ruled that quoted companies must distribute cash and/or share dividends within ten days from the date of the approval of such disbursements by the AGM (KSE, 2014).

Currently, the KSE consists of 208 listed[ix] companies distributed across 15 sectors with a market capitalization of around $110 billion (KSE, 2014). The KSE has operated a clearing house system since 1986 and now employs a one-day rolling settlement period (T+1). Thus, investors must now pay for their shares within 24 hours of the transaction day and the clearing company becomes the counterparty in every security transaction within the KSE[x]. The KSE has four markets including the official, parallel, forward and option markets[xi]. In addition, there are a number of market-makers as well as 14 brokers registered in the country (Aljoman Centre for Economic Consultancy, 2015; KSE, 2014).

In conclusion, there seems to be semi-strong institutional foundation, capacity issues, and enforcement power that led to address and achieve the implementation of the international standards when doing business. Specifically, such improvements in Kuwait's capital markets have been backed by the institutional capacity of the regulators, administration, and judiciary as well as reforming the legal framework of the country. An efficient and vibrant stock market most likely lead to quality accounting reporting and disclosure practices.

3.3 Privatization policy

In 1993, the Kuwait Investment Authority (KIA), launched a privatization programme, which resulted in a major reduction in government involvement as well as increasing the private sector participation within the capital market. Table 3 summarizes the major privatizing companies' transactions during this process. Table 3 reveals that over 2.5 billion shares of 30 key companies were sold to the public for $3.5 billion in the period between 1993 and 1996 (Abul, 2005); The number of quoted companies has therefore more than doubled over the period 1998-2014 (KSE, 2014).

INSERT TABLE 3 HERE

In a very important step towards privatization, on July 2014 the KSE made a decision in order to privatize itself through an initial public offering as described in Article No. 33 of CMA Law No. 7 (2010); the exchange led to a company with a capital of 60 million Kuwaiti Dinars ($213 million). Under the contract, the KSE will have 600 million shares priced at 100 Fills each. The first general meeting was held and the first board of directors of the company was appointed, consisting of eight members, five members selected by the CMA and three are independent members. Under a law passed in 2010, the CMA has to offer 50 percent of the shares to Kuwaiti citizens and 50 percent to ten listed-companies on the KSE.

In sum, privatization in Kuwait has resulted in a transfer of ownership from the state to the private sector through either initial public offerings or selling via private negotiations, ultimately resulting in an expansion in the number of stakeholders present. As a result, this broader ownership structure has led to more transparent disclosure practices for stakeholders regarding performance matters; this is particularly evident for newly privatized companies. In addition, privatization helps Kuwait to attract foreign direct investment where international investors demand comparable corporate disclosure to mitigate against information asymmetry. Consequently, privatization has a beneficial effect on corporate financial reporting through increased disclosures.

3.4 Legal System

The international accounting literature has recognized the prevalence of a particular legal system in a country affects the accounting system followed; countries are classified as either common law or code law in accordance with their legal systems (Nobes, 1983; Doupnik and

Salter, 1995; Tahat, 2013; 2014). In common law countries: (i) there is an inclination towards fair presentation, transparency, and full disclosure; (ii) standard-setting is carried out by bodies in the private sector; and (iii) capital markets are the dominant source of financing for corporate entities (Tahat et al., 2016; Assenso-Okofo et al., 2011). On the other hand, in code law countries: (i) banks or governments are the main sources of financing; (ii) financial accounting is pushed towards creditor protection and financial reporting is characterized by low disclosure levels; (iii) there is an alignment of financial accounting with tax laws; and (iv) governments exert a strong influence on setting accounting standards (Ashraf and Ghani, 2005; Tahat et al., 2017).

Extant empirical studies have shown a strong interest in examining the relationship between accounting systems and legal systems in several countries. La Porta et al. (1997; 2000) suggest that the type of legal system in a country predisposes it towards a particular system of finance. That is, a common law system focuses on shareholder rights and offers stronger investor protection as compared to that offered by a code law system (Mashayekhi and Mashayekh, 2008). This linkage leads to the development of strong capital markets in common law countries and weak ones in code law countries (Tahat, 2014). Consequently, in code law countries, debt rather than equity is the dominant source of financing (Al-Omari and Salimi, 2000).

With respect to Kuwait, the current legal system is a mixture of code and common law. The government oversaw steady economic and infrastructural development during the 1960s and 1970s. However, the Kuwaiti business environment has experienced considerable economic reform that has led to an improvement in the investment activity and an increase in the emphasis that is placed on the capital market; these reforms include (i) the government's privatization program which was launched in the early 1990s and led to a redistribution of business ownership in key firms; (ii) the establishment of the KSE in the early 1970s; and

(iii) government issued regulations which were aimed at enhancing the protection of shareholder rights, improving corporate governance structures, and reaffirming the Board of Directors' responsibilities (Dawd, 2014).

The Kuwaiti government introduced new business laws mandating the adoption of IAS/IFRS which has increased the level, as well as consistency, of corporate disclosure among Kuwaiti listed companies (Almujamed, 2011). These reforms have significantly influenced financial reporting and disclosure practices (Almujamed, 2011, Tahat, 2013). Dawd (2014) indicates that: (i) the KSE has become one of the most efficient markets in the Middle East; (ii) the level of investor protection in Kuwait has increased significantly; (iii) firms tend to depend more on equity financing rather than bank financing; and (iv) the quality of financial reporting has improved significantly. In particular, La Porta et al. (1999) find that the judicial system in Kuwait is efficient and the protection of shareholder rights is strong. Further, Dawd (2014) concludes Kuwaiti legal system has shifted towards a common law system.

3.5 Corporate governance code

Corporate governance is a system by which companies are directed, managed and controlled through mechanisms aimed at regulating board composition, size, committee structure, codes of conduct and ethics programs (Zeghal and Mhedhbi, 2006). Corporate governance is critical to ensuring accountability and disclosure of all relevant, reliable, and accurate financial information to stakeholders. Although prior to 2012 there was no corporate governance code for listed-companies in the KSE, since 2004, CBK had been making an effort to encourage Kuwaiti banks to follow principles of good governance. Recently, the main regulatory bodies (MCI, CMA and CBK) introduced codes and guidelines for companies under their supervision. For example, in June 2012, the CBK published its guidelines regarding corporate governance in Kuwaiti banks and obligated Kuwaiti banks to comply with these codes. The

CBK requires Kuwaiti banks to: (i) prepare and publish (on their website) details pertaining to their corporate governance principles and guidelines endorsed by the board of directors of the bank; (ii) prepare an annual corporate governance report highlighting the bank's compliance with guidelines; (iii) employ external auditors to report on whether the bank has complied with the corporate governance guidelines.

Kuwaiti Companies Law No. 1 (2016) Article (181), stipulates that a member of the company's Chief Executive Office (appointed by the board of directors) is responsible for the management of the firm. Furthermore, the roles of Chairman of the Board of Directors and CEO may not be combined. This focus is echoed by the corporate governance rules issued by the Capital Market Authority on June 26, 2013 (paragraph (d) expressly prohibits such a combination). The CMA code is applicable in its current form for listed and unlisted companies licensed by the CMA, and initially firms were required to comply by December 31, 2014. However, the CMA made a decision to postpone it till 30th June 2016 as the stock market was bearish and it was argued that firms were not ready to comply with the code (Union of Investment Company, 2014). Notwithstanding this delay, the introduction of corporate governance codes in Kuwait, and associated accounting and disclosure practices, has undoubtedly improved transparency and accountability. Further, the level of investor protection has been enhanced thereby mitigating against information asymmetry.

4. The Accounting Environment in Kuwait

The quality of financial accounting and reporting depends on the adequacy and effectiveness of accounting regulation and the strength, size and competence of the profession. It has been argued that a strict rules-based system together with a well-developed accounting profession can lead to improved, judgmentally-based public accounting systems rather than centralized uniform systems (Radebaugh and Gray, 1993). In Kuwait, listed companies are overseen by three major organizations, namely, the Ministry of Commerce and Industry, the Capital

Market Authority and the Central Bank of Kuwait. Since the early 1990s, all listed companies are required to follow IAS/IFRS (Kuwaiti Company Law No. 1, 2016). The KSE requires all listed firms to publish financial statements on a quarterly basis and disclose all relevant information about their companies' operations on a quarterly basis within 45 days of the end of each quarter (Al-Yaqout, 2006).

Three principal (government-controlled) sources of regulation exist in Kuwait: (i) Kuwaiti Company Law No. 1 (2016); (ii) Ministerial Resolution No. 18/1990; and (iii) External Auditing Law No. 5/ 1981. These will now be outlined together with a discussion of key ministerial resolutions.

4.1 New Kuwaiti Company Law No 1 (2016)

New Kuwaiti Company Law No. 1 (2016) is one of the most important sources of legislation for businesses and the accounting profession. The law requires all firms to preserve records of their businesses and financial operations; companies are required to prepare their financial statements at the end of each of fiscal year; companies must submit their annual reports within 90 days of the closed of the financial year. A copy of the balance sheet, the profit and loss account, the reports of the directors and the auditor report for the last fiscal year must be provided to shareholders, MCI, CMA and CBK for financial firms. Further, a representative of the MCI is required to be present at the AGM. New Kuwaiti Company Law No. 1 (2016) also obligates all listed and unlisted companies to assign one or more registered auditors; these auditors should deliver their report to the shareholders of the company, MCI and the CMA for listed-companies.

4.2 Ministerial Resolution No. 206 (1985)

All businesses are required to maintain adequate financial records, although it is not mandatory for these to be maintained in Arabic. According to Ministerial Resolution No. 206 (1985), foreign firms that are subject to the provisions of the Tax Decree are required to maintain basic books and records for their businesses in Kuwait; these books and records include: (i) a general journal (ii) inventory sheets; (iii) a general ledger; (iv) an expense analysis journal; and (v) a stock record. The books of account of taxpayers are regularly subject to a tax audit by the Department of Income Taxes, Ministry of Finance, before taxation is finalized.

Recently, several Memoranda of Understanding (MOU) were signed between CMA and the MCI, and between CMA and CBK on facilitating greater collaboration and cooperation between the main regulatory bodies; the purpose is to minimize any overlap between tasks and requirements for listed and unlisted companies, thus lessening the reporting burden (CMA, 2015). This approach could accelerate companies to disclose their annual reports on a timely basis, and consequently improve the market efficiency of the Kuwaiti Stock Exchange. Further, MCI and the Kuwait Clearing Company (KCC) also signed an MOU charging KCC with the responsibility for depositing documentation and supervising proceedings and writing reports detailing the outcome of their general assemblies (MCI, 2015).

4.3 External Auditing Law No. 5/1981

This law governs the audit profession in the state of the Kuwait. Kuwaiti Company Law obligates listed companies in the state to hire external auditors from firms accredited by the MCI; eighty eight external auditors are registered on MCI with only thirty of these also registered with the CMA (MCI, 2015; CMA, 2015). The CMA list has proposed criteria for membership. In particular, external auditors must not be a board member, founder, manager or administrator of the company being audited to make sure independence is maintained. Registered auditors are allowed to accept consulting work but should not accept jobs that conflict with the audit engagement. Registered auditors must pass all professional exams and meet other requirements. For example, Kuwaiti nationals must hold a Bachelor degree in accounting and must be members of the Kuwait Accounting and Auditing Association (KAAA)[xii] with a minimum of five years' work experience. Auditors have a right to investigate all company records and request all data that appears to be important; any disagreement from the administration should be reported to the Annual General Meeting (AGM).

4.5 Ministerial Resolutions

Ministerial Resolution No. 18/1990 and subsequent amendment No. 101/2008 requires that all firms doing businesses in Kuwait act in accordance with International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs). The law suggested that IFRS and ISAs should not conflict with local regulations. The purpose of the adoption was to increase corporate information disclosure and transparency and to improve the comparability of financial statements both locally and internationally (Al-Shammari, 2008; Mutawaa and Hewaidy, 2010). In general, the introduction of these business laws, which resulted in establishing a number of key regulatory agencies, has enhanced accounting and disclosure practices by listed companies in Kuwait. In particular, these reforms led to the adoption of IAS/IFRS as well as the establishment of the KAAA aimed at further improving accounting practices.

5. Conclusion, implications and future research

This study investigates accounting environment in Kuwait. It explores the origins and development of accounting practices, as well as key factors explaining its current standing. Kuwait has a rich and diverse history. A number of key influential factors facilitate a greater understanding of its accounting environment. First, Kuwait has had a turbulent history of late, coping with war, large population growth, and fluctuating oil revenues. Second, the review indicates that political and economic influences that led to major privatization initiatives commencing in 1993 had a significant impact on Kuwait’s accounting practices. These coercive and mimetic pressures continue to persist with a resultant internationalization of accounting practices in the country as evidenced by its early transition to IAS/IFRS.

Privatization has also affected financial reporting frameworks through the issuance of governance and disclosure regulations. Indeed, this review concludes that privatization has influenced Kuwait's legal system, prompting the government to improve investor protection and enact new regulations which significantly improve disclosure quality; ultimately, Kuwait appears to be exhibiting some characteristics more commonly seen in common-law countries.

A third and probably most significant insight from the review relates to the role of the accounting profession in Kuwait that needs urgent attention as there are a plethora of bodies in Kuwait, each with conflicting goals and focusing on various parts of the regulatory puzzle. Although MOUs exist with aim to cut down overlap; it is clear that confusion still reigns. Therefore it is crucial that one body take charge. KAAA are best placed to assume this role. According to KAAA (2014), the association seeks to enrich the field of accounting. They argue that this is facilitated through research, the provision of consultancy and the exchange of expertise amongst members. However, Alanezi (2006; 2009) has criticizes the KAAA, suggesting that, in common with most developing countries, they are inactive and do not adequately regulate the activities of the accounting profession. KAAA also has no power to set rules for the profession and obligate compliance (AlHussaini et al., 2008). In order to fully realize the benefits from the significant stock market development the KAAA need to assume leadership for accounting regulations and make their voices heard amongst those advocating further reform.

The current study finds support for the notion that accounting development in Kuwait resulted from the exercise of institutional isomorphic pressures (coercive, mimetic, and normative). In particular, the development of the accounting system and the adoption of IAS/IFRS in the country resulted from coercive pressure generated by engagement with international political and economic interests. The preliminary application of IAS/IFRS resulted from coercive pressures from leading accounting organizations such as AICPA and IMA as well as some major international players such as the World Bank and the IMF, from which the government has received the support necessary to initiate key economic developments. Normative pressure emerged from the accounting profession; through its membership of IFAC, the profession in Kuwait was encouraged to seek support for accounting training programs, and to develop accounting education to incorporate coverage of IAS/IFRS within university courses. Mimetic pressures derive from the need to attract multinational corporations to the country, attract foreign direct investment through equity markets, and the desire to attract foreign partners for local private entities.

Moreover, the current study constitutes a welcome addition to the extant international accounting literature and contributes a number of policy implications to regulation and practice. First, the insights provide a better understanding of the factors that may encourage and facilitate the adoption of IAS/IFRS for countries that have yet to transition to these standards. In addition, these insights also provide potentially useful feedback for the IASB in its quest for a strategy to maximize and facilitate the adoption of the international regime by other jurisdictions. Although tentative for now, the review argues that countries that do not belong to the Anglo-American cultural grouping appear to have more difficulties in adopting IAS/IFRS. The IASB and other interested parties could take a more active and supportive role in helping these countries in their transition to the international framework.

Second, the study highlights the accounting regulatory reforms that Kuwait undertook, particularly with regard to the adoption of IAS/IFRS, which encouraged foreign and domestic investment in the Kuwait Stock Exchange. Appreciating the impact of international initiatives can facilitate greater understanding among other governments, particularly those in developing nations, in their efforts to make informed decisions when considering changes in economic and regulatory policies that could alter their countries' investment environments. Finally, the study fills a gap in the extant international accounting literature on emerging nations by evaluating the accounting environment in Kuwait, a developing country. It illustrates how critical it is to appreciate institutional influences in order to provide a bedrock for comprehending a country's current accounting practices, in order to build for the future.

At the outset this study highlights the dearth of literature of accounting development in emerging economies. This is seen as a significant lacuna in the accounting literature. After reviewing the limited literature a future research agenda is proposed. Going forward, it is evident that more empirical (qualitative and quantitative) research is needed to investigate specific features of accounting in Kuwait. This research could explore the impact of particular regulations or accounting standards on Kuwait in order to gain insight into the suitability of Western-oriented frameworks in an emerging country context. The emerging and revamped Kuwaiti corporate governance framework could also prove to be a fruitful research site. On an international level, comparative studies are very useful in understanding the impact of variation in regulatory and institutional frameworks on accounting output.

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[i] For example, Bushman and Piotroski (2006) adopts a quantitative approach to empirically examine the relationship between various institutional factors and accounting numbers, while Mashayekhi and Mashayekh (2008) adopt a more qualitative reflective approach aimed at providing a discursive analysis of the factors under review in Iran. The approach adopted here is more akin to that adopted by the latter paper.

[ii] The first Emir elected for Kuwait was Sabah Ibin Jaber Al-Sabah in 1776 (Al-Diwan Al-Amiri, 2008).

[iii]According to Al-Sabah (1980), the wars between the Ottoman Empire and the Shiite Safavi State in Persia during the 18th and 19th centuries aimed to control Iraq and Iran. The wars forced a number of families to leave their native land and settle in Kuwait; some of these people were merchants who brought their financial expertise with them and launched businesses in the country.

[iv] Sheikh Abdullah Al-Salem Al-Sabah endorsed the constitution on 11th November 1962 (Al-Sabah, 1980).

[v] Kuwait exported its first shipment of oil in 1946 (Kuna News, 2007).

[vi] Initially, Kuwait held a 60% stake in the KNPC and the rest was owned by the private sector; later the government purchased the remaining shares from the private sector so that it then owned the whole of the company (Al-Yaqout, 2006).

[vii] The Market Committee comprises 11 members representing the following stakeholder groups: Minister of Commerce and Industry (Committee Chairman), the Director of the KSE (Vice President), a member from the Ministry of Finance, the head of the Central Bank and the Minister of Commerce. The Chamber of Commerce and the Industry of Kuwait have four members; of these, one must be from a brokerage firm, and two members with expertise are chosen by the cabinet (KSE, 2014).

[viii] In previous years, the distribution could be late - up to July or August for December year ends - because there were no regulations that forced the board of directors to meet and distribute the document within a specified period.

[ix] According to the KSE (2014), all Kuwaiti companies should adhere to the following requirements to be eligible for a listing on the KSE: (i) share capital must be paid in full and of not less than KD 10 in issue; (ii) 30% of the company's capital, divided by the number of shareholders; (iii) receive consent for a firm's operations at a general shareholder meeting; (iv) provide evidence that its activities are approved; (v) realize operating profits during its fiscal year prior to listing and an average operating profit in the last 2 years, amounting to 7.5 % or more per year of its paid-up capital; and (vi) keep at least 25% of the paid-up capital of the company applying for listing with the clearing house for two years from the date of incorporation.

[x] This means that it behaves as the buyer to every seller and the seller to every buyer by guaranteeing that shares will be delivered against payment and vice versa.

[xi] The parallel market is for those companies that did not achieve the requirements for listing in the official market.

[xii] The Kuwait Accounting and Auditing Association was established in April 1973. The KAAA is an affiliate of the General Association of Arab Accountants and Auditors and the International Federation of Accountants (KAAA, 2014).

Exhibit 1: Kuwait Population Growth Rates

Year	1965	1975	1985	1995	2005	2011	2013
Population	467,339	994.837	1,697,301	1,575,570	2,193,651	3,065,850	3,960,000
Growth Rates (%)	-	112.9	70.6	-7.2	39.2	39.8	29.1

Note: This exhibit provides a summary of population trends and growth rates for selected years from 1965 to 2013. These figures were sourced from the Public Authority for Civil Information and its predecessors.

Exhibit 2: Relationship between Oil Prices, Kuwaiti GDP and the KSE Price Index

Year	Average Oil Price (US $)	% Oil Price Increase (Decrease)	Kuwaiti GDP (US$ Billion)	GDP Growth (%)	Average Price Index of the KSE	% Increase (Decrease) in the KSE Price Index
1972	2.29	-	4.69	-	N/A	N/A
1975	10.73	368.6	12.95	175.7	N/A	N/A
1980	28.64	166.9	28.83	122.5	N/A	N/A
1982	32.38	13.1	22.29*	(-22.7)	N/A	N/A
1990	22.26	(31.3)	19.50**	(-12.5)	N/A	N/A
1995	16.86	(-24.3)	29.46	51.0	1365	-
2000	27.60	57.9	37.71	25.2	1348	(-93.5)
2001	23.12	(-16.2)	34.91	(-7.4)	1709	26.8
2002	24.36	5.4	38.13	9.2	2375	39.0
2003	28.10	15.4	47.82	25.4	4795***	101.9
2004	36.05	28.3	59.44	24.3	6409	33.7
2005	50.64	40.5	83.83	41.0	11445	78.6
2006	61.08	20.6	101.90	21.6	10067	(-12.0)
2007	69.08	13.1	118.37	16.2	12558	24.7
2008	95.40	38.1	147.6	35.4	7783	38.0
2009	61.06	(-36.0)	113.5	24.7	7005	(-10.0)
2010	77.41	26.8	127.4	(-23.1)	6955	(-0.7)
2011	107.46	38.8	162.6	12.2	5814	(-16.4)
2012	109.45	1.8	188.1	27.6	5934	2.1

Note: This exhibit provides a summary of oil prices, GDP & the KSE Price Index for selected years from 1972 to 2012.
Source: Central Bank of Kuwait Bulletins, 2008; OPEC: Annual Statistical Bulletin, 2007, 2008; Arab Monetary Fund: Annual Report, 2007, 2008; and KSE Bulletins, 2008. OPEC Basket-weighted average prices were used from 1972 to 2012 to show the association between GDP growth, oil prices and the KSE Price Index. * Start of Iraq-Iran war; ** Iraq invaded Kuwait; *** Saddam Hussein removed from power; N/A denotes Not Available.

Exhibit 3: Summary of the Government Stake in Kuwaiti Listed Companies 1993-2002

No.	Company privatized	% of Government share	
		1993	2002
	Banks		
1	National Bank of Kuwait	1.89	0.00
2	Commercial Bank	14.86	0.00
3	Gulf Bank	17.59	0.00
4	Al-Ahli Bank	8.49	0.00
5	AHLI United	58.80	5.54
6	Burgan	60.99	0.00
7	Kuwait Finance House	32.58	25.01
8	Kuwait International Bank	33.68	0.53
	Investments		
9	Kuwait Investment Company	60.53	76.99
10	Kuwaiti Trading & Contracting and Foreign Investments	99.57	0.00
11	Kuwait International Investment Company	31.93	0.00
	Insurance		
12	Kuwait Insurance	7.52	0.00
13	Gulf Insurance Group	75.17	0.00
14	Al-Ahleia Insurance	20.30	0.00
15	Warba Insurance	55.81	0.00
	Industry		
16	National Industries	58.08	0.00
17	Kuwait Pipe Industries	17.84	0.00
18	Kuwait Cement	36.57	30.58
19	United Fishers of Kuwait	55.83	0.00
20	Refrigeration Industries	60.41	20.22
21	Heavy Engineering Industries & Shipbuilding	56.38	0.00
22	Kuwait United Poultry	64.89	4.82
23	Gulf Cables and Industrial	28.80	0.00
	Real Estate		
24	Kuwait Real Estate	13.70	0.71
25	United Real Estate	57.85	0.0
26	National Real Estate	25.21	0.0
27	The Commercial Real Estate	16.39	0.0
	Transportation		
28	Livestock Transport and Trading	58.69	48.18
29	United Arab Shipping	19.50	0.0
	Services		
30	Kuwait National Cinema	3.18	0.0
31	Kuwait Hotels	73.98	25.15
32	Kuwait Food	34.50	0.0
33	Palms Agro Production	49.45	0.0
34	Agility	53.00	0.0
35	Zain	50.44	25.15

Note: This table summarizes the privatization process in Kuwait at two points in time, 1993 and 2002. In particular, it documents the percentage of the government's stake in firms at those points in time.
Source: http://www.csb.gov.kw/, 2013.